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TAGS: ECON, UR, NATO

SUBJECT: UK PAPER ON INFLATION IN USSR

REF: USNATO 3327

1. UK PAPER ON INFLATION IN USSR STRIKES US AS GENERALLY WELL-REASONED SURVEY OF SUBJECT. IN ABSENCE OF PUBLISHED SOVIET DATA EVERY ESTIMATE OF SOVIET INFLATION MUST NECESSARILY BE TENTATIVE, AND EMBASSY'S IMPRESSIONS, BASED ON RANDOM OBSERVATIONS IN MOSCOW AND ELSEWHERE WHEN TRAVEL TAKES US TO OTHER CITIES, CORRESPOND CLOSELY TO AUTHOR'S CONCLUSION THAT INFLATION WITHIN THE SOVIET UNION IS ON THE ORDER OF 2 PERCENT TO 3 PERCENT ANNUALLY. BECAUSE PRICE INCREASES HERE ARE MOST APPARENT IN THE LUXURY GOODS FIELD AND IN PRODUCT AREAS OF PRINCIPAL INTEREST TO THE

AFFLUENT AND TO FOREIGNERS (CAVIAR, STURGEON, IMPORTS AVAILABLE ONLY ON PAYMENT IN HARD CURRENCY) INCIDENCE OF INFLATION IS PROGRESSIVE. WHILE LIVING COSTS INCURRED BY THAT SMALL PERCENTAGE OF THE POPULATION WHICH LIVES WELL BY WESTERN STANDARDS HAVE PROBABLY RISEN 5 PERCENT -8 PERCENT PER YEAR, THE 99/100 OF THE SOVIET

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POPULATION WHICH HAS NO ACCESS TO HARD CURRENCY OR OTHER SPECIAL

RETAIL OUTLETS REMAINS ESSENTIALLY UNAFFECTED BY SUCH SELECTIVE PRICE INCREASES.

2. FOLLOWING COMMENTS KEYED TO SPECIFIC PARAGRAPHS OF UK PAPER ARE FORWARDED RATHER AS FOOTNOTES THAN AS SUGGESTIONS FOR AMENDMENT.

PARAGRAPH 2: OTHER, PURELY ECONOMIC, PRESSURES ALSO PUT STRAINS ON THE PRICE SYSTEM, IN ADDITION TO LEGAL AND ILLEGAL AVOIDANCE OF CONTROLS BY THE PUBLIC AND IMPORTED FOREIGN INFLATION MENTIONED IN THE PAPER. ONE OF THESE IS WAGE INCREASES; SALARIES HAVE RISEN BY AN AVERAGE 3.5 PERCENT ANNUALLY FOR PAST SEVERAL YEARS. THESE WAGE RISES HAVE HAD DUAL EFFECT OF PUTTING MORE MONEY IN HANDS OF CONSUMING PUBLIC (RESULTING IN DEMAND-PULL PRESSURES) AND HEIGHTENING COSTS OF PRODUCTION THROUGHOUT ECONOMY (COST-PUSH PRESSURES). IMPACT OF THIS LATTER HAS DEFINITELY NOT BEEN FULLY NEGATED BY INCREASES IN LABOR PRODUCTIVITY, NOR HAS MANIPULATION OF PRICES AND CURRENCY SUPPLY BY AUTHORITIES SUCCEEDED IN ELIMINATING EFFECTS OF THESE PRESSURES.

PARAGRAPH 4: CONSUMER CREDIT IN THE SOVIET UNION IS A COMPARATIVELY RECENT INNOVATION, AND WELL OVER 95 PERCENT OF THE ROUGHLY 2 BILLION RUBLES OF CONSUMER CREDIT OUTSTANDING IN MID-1974 REPRESENTS PURCHASE OF TELEVISION SETS ON AN INSTALLMENT PLAN. THE MAXIMUM TERM FOR SUCH LOANS IS 24 MONTHS.

PARAGRAPH 6: IT IS A POINT OF PRIDE TO SOVIET OFFICIALS THAT COMMODITIES INCLUDED IN THE SOVIET STATE RETAIL PRICE INDEX ARE AVAILABLE FOR THE SAME PRICE THROUGHOUT THE SOVIET UNION. THE SOVIETS FREELY ADMIT THAT THIS PRACTICE CAUSES MASSIVE SUBSIDIES FOR THE TRANSPORT OF MANY BASIC FOODSTUFFS FROM FACTORIES LOCATED IN EUROPE TO AREAS OF THE SOVIET FAR EAST AND SIBERIA. THESE DIFFERENTIAL TRANSPORT COSTS ARE ABSORBED IN THE STATE BUDGET AND SOVIET FOREIGN TRADE OFFICIALS CLAIM THAT THE NEED TO TRIM THE FINANCIAL LOAD IMPOSED BY THE ONE-PRICE POLICY IS AN IMPORTANT STIMULUS TO EXPANSION OF FOOD PRODUCTION IN THE SOVIET FAR EAST.

PARAGRAPH 7: WE WOULD DISAGREE WITH THE GENERALLY LIMITED OFFICIAL USE

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UNIMPORTANCE ATTRIBUTED BY THIS PAPER TO THE COLLECTIVE FARM

MARKETS. ACCORDING TO OUR INFORMATION KOLKHOZ MARKETS SUPPLY OVER 50 PERCENT OF ALL FRESH FRUITS AND VEGETABLES CONSUMED IN USSR. SALES OF MEAT IN THESE MARKETS, WHILE NECESSARILY CONSIDERABLY LOWER THAN IN STATE STORES, MAY STILL ACCOUNT FOR AS MUCH AS 25-30 PERCENT OF TOTAL SOVIET MEAT CONSUMPTION. ON BALANCE, EMBASSY ESTIMATES THAT PERHAPS 40 PERCENT OF TOTAL USSR

TRADE IN NON-PROCESSED AGRICULTURAL PRODUCTS TAKES PLACE AT KOLKHOZ MARKETS. THUS, PRICE RISES AT THESE MARKETS PLAY INFLUENTIAL ROLE ON LIVING COSTS FOR VIRTUALLY ALL SOVIET CITIZENS. AND PRICES HERE APPEAR TO BE RISING AT AN AVERAGE OF 5-7 PERCENT PER YEAR, MORE ON SOME ITEMS. IF POTATOES COST 10-15 KOPECKS PER KILO IN JUNE 1972, NOW THERE ARE 20-25 KOPECKS (AND UP TO 35 KOPECKS/KILO FOR NEW POTATOES).

THE SOVIET AUTHORITIES ARE CONCERNED ABOUT EFFECT OF COLLECTIVE MARKET PRICES ON VALUE OF RUBLE (I.E., THEIR INFLATIONARY EFFECT) IS BEYOND QUESTION. SOVIET SOURCES FREQUENTLY RAISE WARNING SIGNALS AT THEORETICAL LEVEL REGARDING EFFECT OF MARKET ECONOMY SYSTEM (FREE EXCHANGE OF GOODS ACCORDING TO SUPPLY AND DEMAND) IN OPERATION OF COLLECTIVE FARM MARKETS. FOR EXAMPLE, IN MONOGRAPH PLANNING CURRENCY CIRCULATION IN THE USSR (PLANIROVANIYE DENEZHNOGO OBRASHCHENIYA V SSSR) (PUBLISHING HOUSE "FINANSY," 1974), FOLLOWING PASSAGE APPEARS:

QUOTE - SINCE IN THE USSR SIDE BY SIDE WITH PLANNED PRICES THERE EXIST PRICES OF THE COLLECTIVE MARKET, WHICH ARE REGULATED BY THE INTER-ACTION OF DEMAND (BACKED BY CAPABILITY OF PAYMENT) AND THE SUPPLY OF GOODS, IT IS PRECISELY VIA THE COLLECTIVE MARKET THAT ACCUMULATED CASH RESERVES, WHICH HEIGHTEN DEMAND, ARE ABLE TO INFLUENCE CURRENCY STABILITY. INCREASE IN DEMAND ACCOMPANIED BY THE ABSENCE OF CORRESPONDING GROWTH IN THE SUPPLY OF GOODS INESCAPABLY LEADS TO A GREATER OR LESSER INCREASE IN PRICES AT THE COLLECTIVE MARKET, I.E. IN POINT OF FACT A REDUCTION IN PURCHASING POWER OF THAT PORTION OF MONEY WHICH GOES TO PURCHASE GOODS AT THE COLLECTIVE MARKET. THIS ALSO CREATES A THREAT FOR THE RUBLE'S PURCHASING POWER IN GENERAL AS A MONETARY UNIT. END QUOTE

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WHILE THE UK PAPER DOES NOT GO INTO MATTER OF STATE CONTROL OVER MONEY IN CIRCULATION, WE WOULD SUBMIT THAT EXCEPTIONALLY CAREFUL OFFICIAL MANAGEMENT OF MONEY SUPPLY IS FURTHER INDICATION OF INFLATIONARY PRESSURES WITHIN SOVIET ECONOMY. IN THIS CONNECTION, FOLLOWING STATEMENT, TAKEN FROM BOOK USSR CURRENCY CIRCULATION AND CREDIT (DENEZHNOYE OBRASHCHENIYE I KREDIT USSR) (PUBLISHING HOUSE "FINANSY", 1970), IS RELEVANT:

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QUOTE ... THE INUNDATION OF CHANNELS OF CIRCULATION WITH (EXCESS) CASH IS SPONTANEOUSLY REFLECTED IN THE NON-ORGANIZED MARKET AND IS EXPRESSED IN A GROWTH IN PRICES FOR COMMODITIES. AND ON THE ORGANIZED MARKET THIS VIOLATION FINDS EXPRESSION IN A GENERAL INCREASE IN DEMAND FOR GOODS OVER THEIR SUPPLY, WHICH GIVES BIRTH TO ABNORMAL LINES IN STORES, LIMITATIONS OF VARIOUS TYPES ON FREE SALES, AND SPECULATIVE RE-SALES OF DEFICIT ITEMS AT HIGH PRICES. END QUOTE

PARAGRAPH 8: ACCORDING TO AUTHORITATIVE SOVIET SOURCES, IN EARLY MAY 1974 THERE WERE SOME 770,000 SAVINGS BANK OFFICES (SBEREGATEL'NYYE KASSY) SPREAD THROUGHOUT THE SOVIET UNION. THESE OFFICES SERVED ABOUT NINETY MILLION INDIVIDUAL ACCOUNTS WITH BALANCES OF APPROXIMATELY 70 BILLION RUBLES IN THE AGGREGATE. SUCH ACCOUNTS DRAW 2 PERCENT SIMPLE INTEREST PER YEAR.

PARAGRAPH 9: THE WRITER CORRECTLY POINTS OUT THE SEEMING PARADOX OF THE EXISTENCE OF LONG QUEUES IN SOVIET STORES AND, AT THE SAME TIME, VAST SURPLUSES. IF THE QUEUES WERE ALL AT COUNTERS SELLING IMPORTED OR ESPECIALLY SCARCE SOVIET-PRODUCED PRODUCTS, WHILE ALL THE SURPLUS ITEMS WERE BEING COMPLETELY

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IGNORED THE EXPLANATION WOULD BE SIMPLE: HOWEVER, THIS IS NOT THE CASE. THERE ARE QUEUES EVERYWHERE, EVEN FOR PRODUCTS OF EVIDENT

LOW QUALITY AND LARGE SURPLUS STOCKS. THE ANSWER LIES PARTIALLY IN THE ANTIQUATED SOVIET MERCHANDISING SYSTEM, WHICH IN MOST CASES REQUIRES A CUSTOMER TO (A) SELECT THE ITEM DESIRED AND HAVE THE SALES CLERK WRITE UP A BILL; (B) TAKE THE BILL TO A CASH REGISTER AND PAY, OBTAINING A "PAID" RECEIPT, AND PICK UP THE PURCHASE. THUS, A CUSTOMER IS IN MOST CASES REQUIRED TO STAND IN THREE LINES BEFORE FINALLY WALKING OUT OF THE STORE WITH A PURCHASE. ADD TO THIS MERCHANDISING SYSTEM THE FACT THAT TOTAL RETAIL SALES OUTLETS, ESPECIALLY IN THE LARGER CITIES, HAVE FAILED TO KEEP PACE WITH POPULATION GROWTH AND ONE CAN MORE READILY COMPREHEND WHAT AT FIRST APPEARS PARADOXICAL. FINALLY, THE SOVIET UNION HAS NOT YET DEVELOPED A "MADISON AVENUE"; THE LITTLE ADVERTISING WHICH IS DONE IS UNATTRACTIVE, WITHOUT IMAGINATION AND RARELY STIMULATES A PERCEIVED "NEED" FOR PRODUCTS.

PARAGRAPH 10: IN ADDITION TO THE REGULAR MERCHANDISE OUTLETS AND THE STREET PEDDLERS, THERE ARE MANY SECOND HAND STORES THROUGHOUT THE SOVIET UNION - SOME 50 IN MOSCOW ALONE. THESE STORES, CALLED "COMMISSION SHOPS" (KOMMISSIONNYY MAGAZINY) DEAL IN EVERY VARIETY OF GOODS, FROM USED LIGHTBULBS AND CLOTHING TO GRAND PIANOS, BUT SOME OF THEM TEND TO SPECIALIZE IN SUCH WARES AS FURNITURE, CARPETS, CHINA OR ART OBJECTS. COMMISSION SHOPS ACCEPT GOODS FROM PRIVATE OWNERS ON CONSIGNMENT, EVALUATE, DISPLAY AND SELL THEM IN RETURN FOR A PERCENTAGE OF THE SALE PRICE. WHILE SOME USED GOODS ARE QUITE CHEAP, A FOUR-YEAR OLD ZENITH TRANSOCEANIC RADIO BRINGS ABOUT 900 RUBLES (\$1,244.35) AND A CHROME-PLATED RONSON "ADONIS- LIGHTER COSTS MORE THAN 100 RUBLES (\$144.93). A SEVEN-FOOT BECHSTEIN GRAND PIANO BUILT BEFORE 1917, IN GOOD CONDITION, WILL COST ABOUT 1800 RUBLES (\$2,608.70). COMMISSION SHOPS ARE USUALLY CROWDED, ESPECIALLY THOSE SELLING DRY GOODS, CLOTHING AND OLD BOOKS, BUT THE SPORADIC RANGE IN SELECTION AND QUALITY OF THE ITEMS AVAILABLE PRECLUDES DRAWING OF PRECISE CONCLUSIONS. WHAT IS CERTAIN IS THAT THESE OUTLETS ABSORB A SIGNIFICANT PORTION OF WHAT WOULD OTHERWISE BE SUPPRESSED BUYING POWER.

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